International Narcotics Control Strategy Report

Released by the Bureau for International Narcotics and Law Enforcement Affairs
March 2005

Law Enforcement Cases

Trade-Based Money Laundering

Money Laundering via Gold Smuggling

In August 2001, the ICE Boston office received information that narcotics traffickers were laundering drug proceeds through the smuggling of gold, which they had disguised as other commodities. ICE officers used the Data Analysis and Research for Trade Transparency (DARTT) database to corroborate the information and provide additional leads. The scheme centered on gold refineries located in the Northeastern United States. Investigators determined that narcotics traffickers were using a number of overvaluation schemes to move the gold into and out of the U.S. Overvaluation schemes, which are common in trade-based money laundering, allow a launderer to send excess funds overseas, while providing documents to conceal the nature of the criminal activity. On several occasions, the traffickers sent lead bars plated with gold to the refinery. Nevertheless, they invoiced these shipments as pure gold bullion. The false invoices allowed the launderers to send payments overseas for the "gold", which greatly exceeded the shipments' true values. In another variation of the overvaluation scheme, the traffickers shipped a commodity described as "slag," which they invoiced at a very low value, to the U.S. refinery. This commodity was actually refinery waste mixed with pure gold. When the U.S. refinery received the slag, it melted the waste material down and extracted the gold, which constituted most of the weight and nearly all of the value of the shipment. The process resulted in a substantial transfer of value into the U.S. Finally, the traffickers also imported commodities that they described as finished jewelry parts. In fact, these items were crude pieces that cost very little to manufacture, although their gold content was high. This method allowed the launderers to file fraudulent tax credit claims under the export laws of various South American countries, many of which provide tax credits for exporting a manufactured product. In August 2004, one U.S. refiner pleaded guilty to money laundering charges. The corporation received five years probation, a $2.25 million fine and had to forfeit $425,000.

Smuggling Freon and Tax Evasion: Businessman Laundered Profits through Panamanian Accounts and Shell Corporations

In a joint investigation with the Environmental Protection Agency, the IRS-CID convicted a businessman of conspiracy to commit money laundering and to evade excise taxes on the sale of illegally imported freon. The businessman and his accomplices filed phony paperwork to conceal the sales of the freon to customers in south Florida. They also created and used domestic and foreign shell corporations and related bank accounts to conceal the proceeds of the illegal sales. The businessman laundered more than $8 million in proceeds from the illicit sales by use of wire transfers through Panamanian corporations and bank accounts. He also diverted corporate income—disguised as loans—into bank accounts in Panama for the personal benefit of his co-conspirators. As a result of the scheme, between January 1993 and June 1994, the businessman evaded approximately $6.2 million in excise taxes and also helped his co-conspirators allegedly to evade additional individual and corporate income taxes on the profits from the freon sales. The businessman received 17 years in prison, a $20.3 million fine, and had to pay restitution to the IRS in the amount of $6.5 million.

Black Market Peso Investigation Nabbed Prominent Colombian Businessman

In May 2004, authorities in the United States, Colombia, Canada, and the United Kingdom announced the dismantling of a massive network that used the Black Market Peso Exchange (BMPE) system to launder millions of dollars in drug proceeds. Dubbed "Operation White Dollar", the two-year multinational investigation targeted the BMPE system from the peso brokers dealing directly with narcotics traffickers down to the Colombian companies and individuals who facilitate the system by purchasing dollars. Operation White Dollar led to the indictment of 34 individuals and companies in Colombia, the United States, and Canada. The U.S. indictment charged that the 34 defendants included: "First-tier peso brokers", those who make contacts directly with narcotics-trafficking organizations; " Second-tier peso brokers", those who concentrate on arranging for the pickup of street-level cash narcotics proceeds and the placing of those funds into the banking system; and "Third-tier peso brokers", those who make contracts directly with Colombian dollar purchasers. In addition to the indictments against the 34 individuals, a prominent Colombian industrialist, who repeatedly purchased millions of dollars in the BMPE system over a period of years, agreed to forfeit to the United States $20 million constituting the dollars that he purchased from the indicted peso brokers. This investigation also involved the issuance of warrants authorizing the seizure of over $1 million from more than 20 separate bank accounts.

Commodity Overvaluation to Hide Tax Fraud

In 1989, ICE agents began investigating a firm in Los Angeles on suspicion of overvaluing imports. ICE used DARTT to identify forty commodities that the company imported, all at values well in excess of world market prices. For instance, the company declared a value of $99 per kilogram for licorice root, when the common value of imports was $0.99 per kilogram. The investigation revealed that the company had intentionally over-deposited customs duties, in an effort to conceal the crime of tax evasion. The scheme allowed the company to transfer $98 offshore for each kilogram of licorice root imported (for which it was actually paying fair market value of about $0.99). The firm paid duty on the higher value to conceal the scheme, resulting in the over-deposit. In 1997, a federal court convicted two officers of the company for tax fraud and money laundering, and sentenced them to incarceration and supervised release, respectively. The company was fined $500,000. The firm and its officers paid approximately $6.3 million to the U.S. Customs Service for customs violations, and paid over $93 million to the IRS as a settlement for civil tax liability.

Bulk Cash Movements

Smuggling Drug Cash from U.S. to Mexico: Operation Money Clip

In October 2004, DEA announced the dismantling of an international money laundering and drug trafficking organization that resulted in the arrest of 83 defendants and the seizures of over $4.4 million in cash, 2,526 kilograms of cocaine, 74 pounds of crystallized methamphetamine (known as "Ice"), 2.8 pounds of methamphetamine, over 40,000 pounds of marijuana, and 1 kilogram of heroin. The investigation, called "Operation Money Clip," began in October 2003 when a sheriff's officer in Kimble County, Texas seized $2.2 million in cash in a routine traffic stop. Acting on a DEA directive to focus investigations on the abilities, methods, and routes used to smuggle large amounts of currency from the United States to the narcotics source countries, DEA was able to expand the case to 43 investigations spanning the nation. The investigation targeted a Mexican-based poly-drug-trafficking organization with ties to the Mexican drug-trafficking "Federation of Traffickers." DEA agents in 25 cities found that the organization allegedly laundered as much as $200 million from various rural and urban American cities to Mexican targets over approximately two years. The ensuing investigation established that this organization allegedly distributed approximately 500 kilograms of cocaine, 200 pounds of methamphetamine, 20 kilograms of heroin, and 10,000 pounds of marijuana per month in that same period. In addition to transporting the money physically across the border, the traffickers laundered the illicit funds through remitter services, businesses, and foreign bank accounts. The network reached to metropolitan areas of Chicago, Atlanta, New York, and Los Angeles, and rural sections in Virginia, Pennsylvania, Iowa, South Carolina, and North Carolina.

Politically Exposed Persons and Money Laundering

Money Laundering and Political Corruption: Prosecution of Former Ukrainian Prime Minister

On June 3, 2004, a federal jury found former Ukrainian Prime Minister Pavel Lazarenko guilty of seven counts of money laundering and 22 other related charges, including wire fraud and interstate transportation of stolen property. Lazarenko, who was arrested in 1999 just three years after he became prime minister of the Ukraine, left a complex trail of money transfers, deposits, and withdrawals over three continents that investigators were able to piece together. Among other things, Lazarenko and his associates obtained a controlling interest in a bank located in Antigua and Barbuda, and transferred millions of dollars in criminal proceeds through correspondent accounts in the United States to these accounts in Antigua. In 2000, a federal grand jury indicted Lazarenko with laundering money through these correspondent accounts in the United States. The prosecution is the result of a six-year investigation led by agents of the Federal Bureau of Investigation and Internal Revenue Service. Although post-trial motions and, therefore, final conviction remain pending, the prosecution and jury verdict demonstrate the U.S. commitment to prosecute transnational crime, as well as the reach of U.S. money laundering laws. If ultimately convicted, Lazarenko would be the first foreign head of state to be convicted for laundering the proceeds of foreign crimes via U.S. banks, and only the second head of state, along with Manuel Noriega, to be prosecuted in the United States. The U.S. is seeking criminal forfeiture of all property involved in the money laundering offenses. In May 2004, the Department of Justice filed a civil forfeiture complaint in the U.S. District Court for the District of Columbia, seeking forfeiture of foreign proceeds and instrumentalities of the criminal conduct of Mr. Lazarenko and his associates. Among other things, the complaint alleges that Mr. Lazarenko and his associates repeatedly used the U.S. financial system in violation of U.S. law both in the generation of illegal proceeds and in an effort to launder them. The funds identified for civil forfeiture include more than $145 million in U.S. currency located in Guernsey, and more than $87.1 million in U.S. currency located in Antigua and Barbuda.

Asset Forfeiture and Foreign Official Corruption: Repatriation of Funds to Peru and Nicaragua

In 2004, the United States repatriated funds to Peru and Nicaragua, in conjunction with investigations and forfeiture actions involving foreign official corruption. In August 2004, the United States repatriated $20.2 million to the Government of Peru, representing 100 percent of the net assets forfeited in two Department of Justice civil forfeiture actions filed in connection with an FBI investigation into fraud, corruption and money laundering committed by former Peruvian intelligence chief Vladimiro Montesinos, his associate Victor Alberto Venero-Garrido, and other associates of the government of former Peruvian President Alberto Fujimori. The funds were transferred in accordance with an agreement entered into between the United States and Peru at the 2004 Special Summit of the Americas that provides for transparency as well as special consideration for the compensation of victims and support for Peruvian anticorruption efforts. This financial investigation also contributed to the successful apprehension of Montesinos in Venezuela and the successful repatriation of additional funds to Peru, including more than $14 million voluntarily repatriated by Venero. In December 2004, the Treasury Department transferred $2.7 million to the Government of Nicaragua, representing 100 percent of the net assets forfeited in a Department of Justice civil forfeiture action filed in conjunction with a Department of Homeland Security/Immigration and Customs Enforcement investigation related to the criminal conduct of Byron Jerez, former Nicaraguan Director of Taxation and associate of former President Aleman. Pursuant to the agreement authorizing the transfer of these funds, almost all of the funds will be utilized for education projects, with $100,000 going to support anticorruption efforts of the Nicaraguan Prosecutor General's Office. These cases exemplify the effective use of asset forfeiture and financial investigations to combat transnational money laundering and demonstrate the commitment of the United States to finding, seizing, forfeiting and recovering the proceeds of foreign official corruption on behalf of other countries.

Terrorist Financing

Fronting for Hamas: the Holy Land Foundation

In July 2004, federal prosecutors in Dallas charged seven principals of the Holy Land Foundation for Relief & Development (HLF), on 42 counts, including conspiracy and IEEPA violations for dealing in the property of a Specially Designated Global Terrorist (SDGT) organization; providing material support to a SDGT; money laundering; and filing false tax returns. The HLF was the largest Muslim charity in the United States until the U.S. government declared it a SDGT organization after federal investigators determined that it had raised millions of dollars for HAMAS over a 13-year period. HLF

received start-up assistance from Mousa Abu Marzook, a leader of Hamas and a specially designated terrorist (SDT), and has ties to INFOCOM Corporation, an Internet service provider and computer exporter. Federal prosecutors indicted both Marzook and INFOCOM on IEEPA and money laundering charges in August 2003.

Oregon Charitable Organization Supported Chechnyan Terrorists

In February 2004, federal officials blocked the assets of and searched all properties purchased on behalf of the Al Haramain Foundation's (AHF) branch in Oregon. A joint task force of IRS-CID, FBI, and ICE officers executed the orders on the basis of an affidavit that alleged the AHF had violated currency and monetary instrument reporting requirements, tax laws, and other money laundering related offenses. Moreover, individuals connected with AHF in Oregon appear to have concealed the movement of funds to Chechnya. Russians officials have indicated that the Chechnyan mujahideen have received substantial funding from Islamic charities and non-governmental organizations. The allegations arose around a particular transaction in which funds were wired from a foreign country, through a bank in London, to AHF in Oregon. Documents related to this wire transfer indicate that the donor intended the funds to be used to support efforts of "Muslim brothers in Chechnya." AHF founder Al-Aqil assured the donor that the money would be used to "help end the Chechnyan crisis." After this wire transfer, an individual traveled from Saudi Arabia to the U.S. and obtained the wired funds in the form of traveler's checks and a cashier's check. The cashier's check included a notation: "Donations for Chichani Refugees." The individual then left the country without declaring he was taking out over $100,000 in traveler's checks. AHF employees then attempted to conceal this transaction, including omitting it from tax returns and mischaracterizing the use of the funds. They failed to provide information on the transaction to the accountant who prepared the organization's tax returns. In fact, the AHF employees told the accountant that all the funds went to purchase a prayer house in Springfield, Missouri, furnished the accountant with documentation that overstated the purchase price of the property. In addition, officers of the charity characterized other portions of the funds—$21,000- as reimbursements rather than as contribution income and funds distributed to Chechnya.

Narcoterrorism: Arms for the FARC

In April 2004, ICE agents arrested Carlos Enrique Gamarra-Murillo, a Colombian national, on charges of trying to provide material support to a designated foreign terrorist organization, attempting to export defense weapons without a license, conspiracy to distribute cocaine, and possession of machine guns. In a meeting with undercover officers in July 2003 in Florida, he provided a shopping list of weapons that he wanted to buy, including 16 assault rifles, 60 machine guns, grenade launchers, and grenades. He also expressed interest in buying "Stinger" anti-aircraft missiles. Undercover ICE agents later lured him back to Florida again in April 2004 under the ruse of arranging the sell of almost $4 million dollars worth of weapons for the FARC. Before being arrested, Gamarra produced $92,000 as a down payment for the weapons and arranged for their delivery to a clandestine airstrip in Venezuela. The remainder of the payment was to be made in cash and cocaine.

Human Trafficking and Related Cases and Money Laundering

Adoption Agency Used Cambodian Children in Immigration Fraud and Money Laundering Scheme

In November 2004, a federal judge in Seattle, Washington sentenced Lauryn Galindo for conspiracy to commit U.S. Immigration visa fraud, conspiracy to launder money, and structuring financial transactions. In a joint investigation, IRS-CID and ICE investigators had focused on Galindo, who admitted she organized a scheme whereby some Cambodian children were taken from their families and represented on immigration forms as orphans. Along with her sister, Galindo ran Seattle International Adoptions (SIA), the largest agency in the United States handling the adoption of Cambodian children. While the agency billed itself as humanitarian in focus, it turned out that some of the children had been taken from their mothers for a small payment, and some of their visas had been obtained through fraud. During the investigation, agents traveled to Cambodia and determined that all of the children being adopted through SIA had "unknown" placed on the U.S. visa applications for the names of the birth parents of the children. Officers also determined from interviewing some of those children that they had lived with their families until being brought to an orphanage and processed out

for adoption. Some of the U.S. parents actually met the "orphan's" birthparents, and gave them money at Galindo's direction. Many of them thought at the time that they were giving money to the child's caretaker, but later learned that the recipients were in fact their biological parents. ICE agents also found out subsequently that many other children did not qualify under the U.S. definition of "orphan" and, therefore, were not immediately available to be adopted. In addition, there were instances when a baby whose paperwork had been processed became too ill, died, or was rejected by the U.S. parent coming to adopt. In several instances "switches" occurred where a new baby was provided and just assumed the ID of the other child and then entered the U.S. under the other child's biographical information. Money given to Galindo was used as "grease" to move adoptions along. Galindo had U.S. parents wire money to Cambodia to be used for this purpose, although the parents were told it was an orphanage donation. Cambodian officials have levied charges against individuals in Cambodia who were complicit in the scheme.

Hawala Dealer Arrested for Facilitating Alien Smuggling Ring

In a recent case, federal officers arrested Gunvant Shah, a hawaladar based in New Jersey and Boston, on the following charges: sending money by way of exchange to promote alien smuggling; operating an illegal banking entity; structuring money order purchases; conspiracy and tax fraud. By using phone taps to intercept telephone calls and faxed items between Shah and his co-conspirators, investigators discovered that the men funneled alien smuggling fees through legitimate companies' bank accounts and into foreign countries, thereby evading any countries reporting requirements. Shah typically sent money to India through direct hawala transfers or via packages of monetary instruments to other hawaladars, Zakhir and Piyush Patel, who in turn utilized legitimate businesses such as Jack Filled Trading, CNA Metals, and A.R.Y. International, to transfer money overseas. Authorities seized several of these packages, which confirmed that in 1997 and 1998, Shah received large sums of cash, cashier's checks, money orders, and personal checks connected to the alien smuggling activity. Moreover, officers learned that Shah and his associates also structured money order purchases-they bought high volumes of U.S. Postal Money Orders in limited amounts to avoid currency transaction reporting requirements. Investigators reviewed the records of Zakhir Patels' money transmittal business and discovered that from March to November 1998 Patel received approximately $2.9 million from Shah. From February to October 1998, Zakhir Patel wired approximately $1.5 million to the bank account of A.R.Y. International in New York. Supported by his own ledgers, Piyush Patel admitted that he received between $200,000 and $500,000 per month from Shah between February and November 1998, or about $2.5 million.

Money Laundering and Forced Prostitution

In a recent case, Immigration and Customs Enforcement (ICE) officers investigated a family-run smuggling organization that smuggled Mexican women into the United States and forced them into prostitution. Two brothers, both Mexican nationals, supervised a ring that smuggled the women into Arizona and then moved them to New Jersey. The ring offered several of the women legitimate employment to lure them into the United States, but later coerced them into prostitution. The smugglers kept all proceeds earned by the women through prostitution. The criminal organization used the same individuals who transported the women to New Jersey to remit the profits earned from prostitution back to Mexico. The two sisters in the family also sent some of the prostitution profits via wire transfers to Mexico. Other members of the ring used the profits to purchase real estate, using the names of other family members to help hide the identities of the smugglers.

Fraud and Money Laundering

Australian Investor Fraud Scheme

In a recent case, a federal jury convicted Geoffrey Chris Clement for fraud and money laundering violations and a federal court sentenced him to serve 13 years in prison. Clement falsely represented to prospective investors in Australia that he had the ability to make high yield, low risk investments through a company controlled by him, which was organized under the laws of the Isle of Man and the United Kingdom. Clement offered investors a return of four to eight percent per month on their investment in what he referred to as a "High Asset Management Program" or HAMP in Europe. The investors borrowed money to invest by obtaining five loans from the Bank of New Zealand in Perth,

Western Australia. As part of the scheme, Clement and his agent provided collateral for the loans in the form of a company named the Australia Queensland Treasury Corporation (AQTC), which proved to be insufficient to cover the outstanding loans. Clement and his agent also offered United States Treasury bills as collateral, whose values were also not enough to cover the outstanding loans. As part of the fraud, Clement directed funds to be wire transferred from England to the United States, as well as from the United States to Australia. The victims lost an estimated $5 million as a result of this scheme. Working jointly with the FBI, IRS-CID used complex financial investigative techniques to track the wire transfers and uncovered the fraudulent scheme. Based on the funds identified in the investigation, the court ordered Clement to pay restitution to the victims totaling $3.9 million.

Tax Evasion Scheme Uses Antigua Offshore Bank

IRS-CID conducted an investigation of Albert Carter of Provo, Utah who was convicted of tax crimes after agents uncovered a scheme that Carter devised to defraud investors of their money through an investment program, often referred to as a "doubling program". Even though Carter had gross income in excess of $215,000 and owed federal taxes in excess of $75,000, Carter not only failed to file his tax return, but also committed acts of tax evasion, including the use of a VISA card account from an offshore bank to pay personal expenses, the transfer of money to the VISA card account, and the transfer of records reflecting income and expenses offshore. Carter was "managing director" of Allied International Resources (AIR) and represented the company as having offices in Utah and Antigua. During this time, Carter devised what turned out to be a non-existent prime bank instrument investment scheme to defraud investors of their money through an investment program involving the international trading of bank debentures. Carter and his associates solicited approximately $3 million from investors for the "doubling program." Through letters mailed to investors, Carter represented that the investment was for a 12-month term, was protected by a guarantee against loss for 108 percent of the investment, and was backed by a trust fund of over five times the amount that AIR was obligated to pay out. The letter represented that an investor could expect 200 percent of the investment at the annual anniversary date. Carter represented to his clients that the international trading of bank debentures is a privileged and highly lucrative profit source for participating banks and, as a result, these opportunities are not made known to the public. He also claimed that the proposed investment is "safer than Certificates of Deposit at your local bank." Carter sent another letter to investors eleven months after their investment had been made, which misrepresented that the initial investment had "dramatically increased" to an amount equal to twice the initial investment. The second letter misled investors into believing that the program was generating a return for them when, in fact, no return had been received by AIR. Carter admitted he did not inform investors that investor funds brought in through the program would be used to pay off other investors—essentially a Ponzi scheme—and also used to pay his personal expenses and the operating expenses of AIR. He used about $1,200,000 of investor funds to repay other investors.

Internet Gambling

IRS-CID seizes millions in offshore gaming investigation involving Antigua and Belize

In a recent case, IRS-CID charged a large-scale offshore gaming operation with money laundering. Peter Mowad and John Reyes were partners in "Carib", an offshore Sports Book and Casino that operated in Antigua, Belize and in the United States. Since 1993, Mowad and his associates accepted wagers on sporting events from bettors located in the United States using the Internet or other telephone communications. Mowad, or associates acting under his control, while physically located in Antigua or Belize, knowingly accepted wagers in interstate and foreign commerce from persons physically located in states within the U.S. where sports gambling is prohibited. As part of his unlawful scheme, Mowad and his associates established a Florida corporation to supply the offshore gaming business with equipment and supplies necessary to operate. Mowad and his associates accepted millions of dollars in wagers every year and advertised Carib via direct mailings, sports publications and on the Internet. The illegal activity generated millions of dollars in income. Mowad used his position as a principal of the business to divert millions of dollars from the business to his own financial benefit. Mowad arranged these transactions by writing checks or transferring funds by wire, or by directing subordinate employees to do so, from Carib's various business bank accounts to accounts that were owned and controlled either by Mowad or his family members. IRS-CID seized over $2.6 million held by Mowad or for his benefit in accounts at the International Bank of Miami.